RESEARCH Q4 2021

# St. Louis Office Market

## Financial, Technology and Healthcare Tenants Continue to Lead Leasing Activity

The St. Louis office market realized a decrease in asking rental rates in the fourth quarter of 2021, as rents fell $0.06/SF from the record high of $22.09/SF in the third quarter of 2021. While the overall trend in asking rental rates since the second quarter of 2019 continues to rise, tenants are often seeing more concessions in the form of free rent and tenant improvement allowances to offset the increase, as well as longer lease terms to accommodate the ever-increasing construction costs. Market vacancy increased 20 basis points to 13.2% from the prior quarter and an increase of 150 basis points from one year ago. Total net absorption in the quarter measured negative 213,654 square feet, bringing the total for the past four quarters to negative 1.1 million square feet. One construction project underway during the quarter totaled 224,585 square feet. The Class A Forsyth Pointe project in Clayton is currently 42.6% pre-leased. No projects were delivered to the market during the quarter.

### Vir Biotechnology, Inc. Will Relocate to the @4240 Building Within the Cortex Innovation Community

Vir Biotechnology, Inc., a San Francisco-based immunology research company focused on treating and preventing serious infectious diseases, announced in December it signed a 60,000-square-foot lease in the @4240 building within the Cortex Innovation Community. Located at 4240 Duncan Ave., Vir Biotechnology is expected to invest more than $41 million in the innovation lab and office space and create 36 new jobs. The firm will backfill space previously occupied by Washington University.

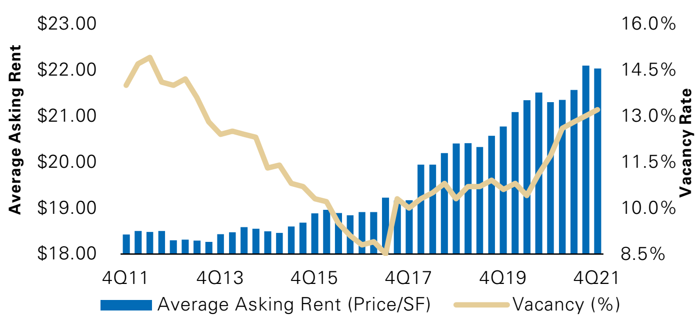
General Dynamics Information Technology (GDIT), a Virginia-based information technology product and services company providing services primarily to the Department of Defense, held a ribbon cutting ceremony in December as it also recently signed a lease for 11,000 square feet in the @4240 building. The firm is expected to house approximately 50 employees at the new lab space known as GDIT DeepSky.

## Current Conditions

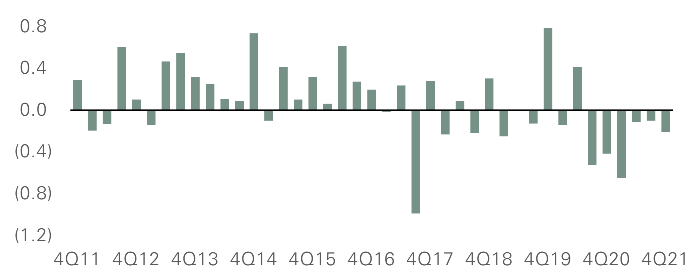
- While the overall trend in asking rental rates continues to rise, tenants are often seeing more concessions to offset the increase.
- Expect favorable conditions and opportunities for prospective tenants to upgrade from Class B to Class A space during 2022.
- Vir Biotechnology and GDIT lease 60,000 SF and 11,000 SF in the @4240 building within the Cortex Innovation Community.
- Crescent Investment Group and MAP Holdings, LLC purchase fifth largest office building in the region, the 658,000-SF U.S. Bank Building.

## Market Analysis

ASKING RENT AND VACANCY RATE




NET ABSORPTION (SF, Millions)




## Market Summary

| | Current Quarter | Prior Quarter | Year Ago Period | 12-Month Forecast |
|---|---|---|---|---|
| Total Inventory | 75 MSF | 75 MSF | 75 MSF | ← → |
| Vacancy Rate | 13.2% | 13.0% | 11.7% | ↑ |
| Qtr. Net Absorp. | -213,654 | -103,015 | -418,951 | ↓ |
| Avg. Asking Rent | $22.03 | $22.09 | $21.30 | ← → |
| Under Con. | 224,585 | 224,585 | 634,750 | ← → |
| Deliveries | 0 | 0 | 0 | ↑ |

NEWMARK ZIMMER

## Minneapolis Area-Based Joint Venture Purchases 658,000-Square-Foot U.S. Bank Plaza in Downtown

A Minneapolis area-based joint venture between Crescent Investment Group, a value-oriented commercial real estate investment firm, and MAP Holdings, LLC, an asset management firm, announced in late October that it had purchased a portfolio of two properties, which included U.S. Bank Plaza, the fifth largest office building in the region, totaling 658,000 square feet. Located at 505 North 7th St. in Downtown, the 36-story, Class A property delivered to the market in 1975 and sits on a 1.5-acre site. As one of the largest owner-occupied office spaces in the metro, U.S. Bank expressed its intention to sign a long-term lease with the new owners at its current space. A second property located at 721 Locust St. in Downtown was also included in the sale by U.S. Bank. Totaling 133,210 square feet, the three-story, Class C retail bank property was delivered to the market in 1902 and sits on a 0.8-acre site. The portfolio sale price was not disclosed.

Crescent Investment Group and Map Holdings, LLC closed a similar transaction in late October by purchasing the 194,000-square-foot, U.S. Bank Tower Building in Lincoln, Nebraska. The 20-story, Class A property sold for $6.2 million, or $32/SF. The deal is also a sale-leaseback transaction whereby U.S. Bank will remain in the property by signing a long-term lease.

## Expect Favorable Conditions and Opportunities for Prospective Tenants to Upgrade from Class B to Class A Space During 2022

The St. Louis office market loosened in the fourth quarter of 2021 as negative 213,654 square feet was absorbed. With net absorption during the past four quarters totaling negative 1.1 million square feet, average quarterly net absorption has significantly decreased, measuring negative 219,184 square feet during the past two years. Leasing commitments during the quarter were active in various submarkets as tenants locked in favorable terms for new direct and subleased spaces. Users in the financial, technology and healthcare sectors led the quarter.

Expect favorable conditions and opportunities for prospective tenants to upgrade from Class B to Class A space during 2022, as submarkets in the Metro display vacancy rates for Class A space ranging from 11.0% to 26.4%. Overall market vacancy should range from 13.8% to 14.8%, while asking rental rates are expected to range from $22.00/SF to $22.55/SF during the next four quarters.

### Lease/User Transactions

| Tenant | Building | Submarket | Type | Square Feet |
|---|---|---|---|---|
| DataVerify | 424 S Woods Mill Rd | West County | New | 20,270 |
| BJC Healthcare | 450 N New Ballas Rd | Mid County | New | 15,610 |
| Berkshire Hathaway | 12851 Manchester Rd | West County | New | 15,570 |
| TricorBraun | 6 Cityplace Dr | Mid County | Renewal | 13,160 |
| Netskope | 222 S Central Ave | Clayton | New | 8,190 |
| BSA LifeStructures | 12645 Olive Blvd | Mid County | New | 7,720 |

### Sales Transactions

| Building | Submarket | Sale Price | Price/SF | Square Feet |
|---|---|---|---|---|
| Timberlake Corp. Center Portfolio (3) | West County | $67,000,000 | $191 | 351,530 |
| 1001 N Warson Rd | Mid County | $92,000,000 | $575 | 160,000 |
| 1855 Bowles Ave | South County | $8,300,000 | $127 | 65,320 |
| 1815 Clarkson Rd | West County | $15,532,000 | $256 | 60,670 |
| 11410-11440 Olive Blvd | Mid County | $4,256,000 | $120 | 35,580 |
| 240 Larkin Williams Industrial Ct | South County | $3,050,000 | $94 | 32,530 |
| 1717 Hidden Creek Ct | West County | $1,850,000 | $104 | 17,750 |
| 916 Talon Dr | Metro East | $3,280,000 | $273 | 12,000 |

## Submarket Statistics

| Submarket | Class | Total Number of Buildings | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Total Asking Rent (Price/SF) |
|---|---|---|---|---|---|---|---|---|
| **Downtown** | **ALL** | **236** | **27,608,694** | **0** | **14.60%** | **-134,142** | **-248,054** | **$18.05** |
| | Class A | 35 | 11,232,031 | 0 | 26.40% | -41,665 | -170,201 | $19.08 |
| | Class B | 125 | 11,448,284 | 0 | 7.60% | -68,443 | -22,320 | $16.26 |
| | Class C | 76 | 4,928,379 | 0 | 4.30% | -24,034 | -55,533 | $14.48 |
| **Clayton** | **ALL** | **99** | **9,073,704** | **224,585** | **10.60%** | **-21,167** | **-159,231** | **$29.93** |
| | Class A | 32 | 5,655,815 | 224,585 | 11.00% | -4,151 | -144,909 | $33.26 |
| | Class B | 48 | 2,688,801 | 0 | 10.70% | -28,098 | -25,007 | $22.16 |
| | Class C | 19 | 729,088 | 0 | 7.20% | 11,082 | 10,685 | $20.63 |
| **Mid County** | **ALL** | **175** | **12,011,211** | **0** | **13.40%** | **-40,855** | **-336,304** | **$22.76** |
| | Class A | 33 | 5,164,619 | 0 | 13.20% | -54,201 | -230,025 | $25.75 |
| | Class B | 120 | 6,121,871 | 0 | 15.00% | 13,346 | -115,833 | $19.63 |
| | Class C | 22 | 724,721 | 0 | 2.00% | 0 | 9,554 | $19.22 |
| **North County** | **ALL** | **89** | **8,022,955** | **0** | **14.10%** | **1,372** | **-124,352** | **$18.66** |
| | Class A | 20 | 3,187,592 | 0 | 17.90% | 29,032 | 24,773 | $19.81 |
| | Class B | 42 | 3,669,447 | 0 | 10.10% | -27,660 | -147,925 | $17.91 |
| | Class C | 27 | 1,165,916 | 0 | 16.40% | 0 | -1,200 | $15.59 |
| **South County** | **ALL** | **76** | **4,598,734** | **0** | **11.30%** | **-25,356** | **31,669** | **$22.77** |
| | Class A | 16 | 1,613,593 | 0 | 18.60% | -33,080 | -29,452 | $23.93 |
| | Class B | 50 | 2,641,782 | 0 | 7.50% | 7,824 | 62,623 | $21.14 |
| | Class C | 10 | 343,359 | 0 | 6.10% | -100 | -1,502 | $20.38 |
| **St. Charles County** | **ALL** | **69** | **3,664,237** | **0** | **11.80%** | **19,532** | **-113,789** | **$19.97** |
| | Class A | 21 | 1,741,634 | 0 | 12.50% | 27,421 | -34,376 | $21.78 |
| | Class B | 37 | 1,351,351 | 0 | 6.90% | -13,324 | -3,403 | $21.41 |
| | Class C | 11 | 571,252 | 0 | 21.50% | 5,435 | -76,010 | $16.49 |
| **West County** | **ALL** | **140** | **9,798,645** | **0** | **12.20%** | **-13,038** | **-129,567** | **$24.80** |
| | Class A | 60 | 6,109,735 | 0 | 11.40% | 6,225 | -96,833 | $26.58 |
| | Class B | 71 | 3,351,955 | 0 | 14.40% | -15,704 | -37,211 | $21.72 |
| | Class C | 9 | 336,955 | 0 | 5.90% | -3,559 | 4,477 | $18.00 |
| **St. Louis Market** | **ALL** | **884** | **74,778,180** | **224,585** | **13.20%** | **-213,654** | **-1,079,628** | **$22.03** |
| | **Class A** | **217** | **34,705,019** | **224,585** | **17.40%** | **-70,419** | **-681,023** | **$24.14** |
| | **Class B** | **493** | **31,273,491** | **0** | **10.20%** | **-132,059** | **-289,076** | **$19.26** |
| | **Class C** | **174** | **8,799,670** | **0** | **7.40%** | **-11,176** | **-109,529** | **$15.86** |

## Submarket Statistics – Class A

| Submarket | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Direct Asking Rent (Price/SF) | Sublet Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|---|---|---|---|---|---|---|---|---|
| Downtown | 11,232,031 | 0 | 26.40% | -41,665 | -170,201 | $19.25 | $15.08 | $19.08 |
| Clayton | 5,655,815 | 224,585 | 11.00% | -4,151 | -144,909 | $34.07 | $24.42 | $33.26 |
| Mid County | 5,164,619 | 0 | 13.20% | -54,201 | -230,025 | $26.17 | $22.20 | $25.75 |
| North County | 3,187,592 | 0 | 17.90% | 29,032 | 24,773 | $20.52 | $17.03 | $19.81 |
| South County | 1,613,593 | 0 | 18.60% | -33,080 | -29,452 | $24.27 | $18.59 | $23.93 |
| St. Charles County | 1,741,634 | 0 | 12.50% | 27,421 | -34,376 | $21.78 | - | $21.78 |
| West County | 6,109,735 | 0 | 11.40% | 6,225 | -96,833 | $27.08 | $23.43 | $26.58 |
| **St. Louis Market** | **34,705,019** | **224,585** | **17.40%** | **-70,419** | **-681,023** | **$24.58** | **$20.13** | **$24.14** |

## Submarket Statistics – Class B

| Submarket | Total Inventory (SF) | Under Construction (SF) | Total Vacancy Rate | Qtr Absorption (SF) | YTD Absorption (SF) | Direct Asking Rent (Price/SF) | Sublet Asking Rent (Price/SF) | Total Asking Rent (Price/SF) |
|---|---|---|---|---|---|---|---|---|
| Downtown | 11,448,284 | 0 | 7.60% | -68,443 | -22,320 | $16.44 | $15.00 | $16.26 |
| Clayton | 2,688,801 | 0 | 10.70% | -28,098 | -25,007 | $22.68 | $17.50 | $22.16 |
| Mid County | 6,121,871 | 0 | 15.00% | 13,346 | -115,833 | $19.88 | $16.66 | $19.63 |
| North County | 3,669,447 | 0 | 10.10% | -27,660 | -147,925 | $17.91 | - | $17.91 |
| South County | 2,641,782 | 0 | 7.50% | 7,824 | 62,623 | $21.14 | - | $21.14 |
| St. Charles County | 1,351,351 | 0 | 6.90% | -13,324 | -3,403 | $21.52 | $16.00 | $21.41 |
| West County | 3,351,955 | 0 | 14.40% | -15,704 | -37,211 | $21.92 | $19.00 | $21.72 |
| **St. Louis Market** | **31,273,491** | **0** | **10.20%** | **-132,059** | **-289,076** | **$19.47** | **$15.48** | **$19.26** |

## Economic Conditions

The local economy continued to improve in November, with total employment growth of 1.7% and growth occurring in seven out of 10 industries, calculated on a 12-month percent change basis.

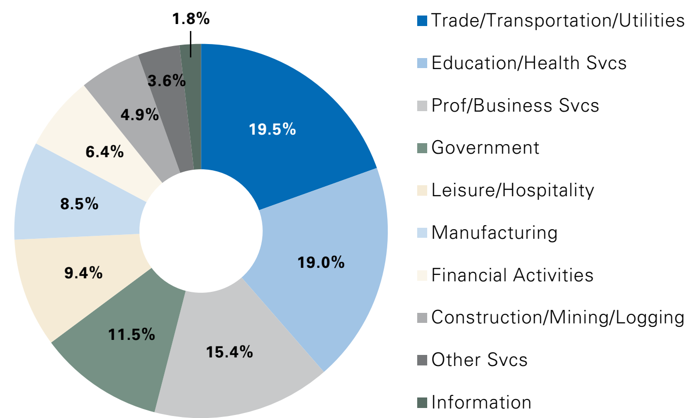
Payroll employment in St. Louis increased significantly in November 2021 compared to the prior year, increasing to 1.7%. The national average also increased substantially, up from negative 5.9% in November 2020 to 4.1% in November 2021.

The Consumer Price Index for the U.S. increased 560 basis points compared to the prior year, registering 6.8% in November 2021, while the Midwest Urban CPI increased 630 basis points to 7.3%, both at record highs during the past decade.

Unemployment in the U.S. decreased 100 basis points to 4.2%, while unemployment in St. Louis remained flat at 3.8% compared with the past quarter. Unemployment in St. Louis decreased 150 basis points from a year prior.

## Employment By Industry

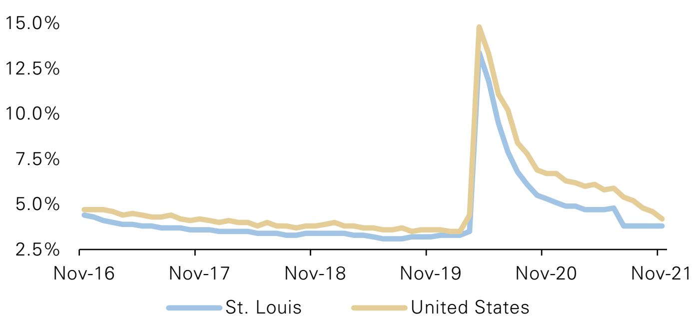
**St. Louis, November 2021**




Source: U.S. Bureau of Labor Statistics, December 2021

## Unemployment Rate

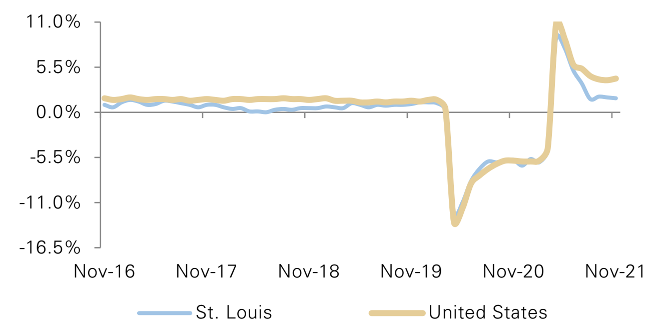
**Seasonally Adjusted**




Source: U.S. Bureau of Labor Statistics, December 2021

## Payroll Employment

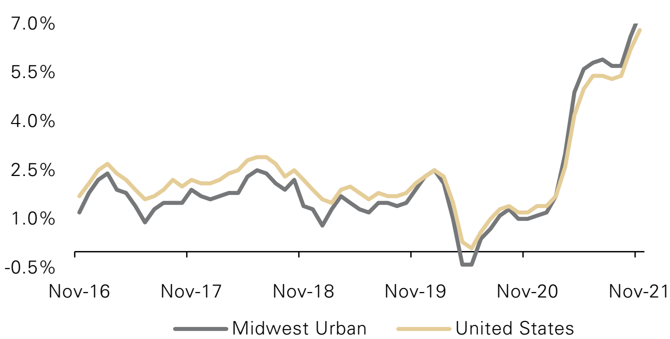
**Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change**




Source: U.S. Bureau of Labor Statistics, December 2021

## Consumer Price Index (CPI)

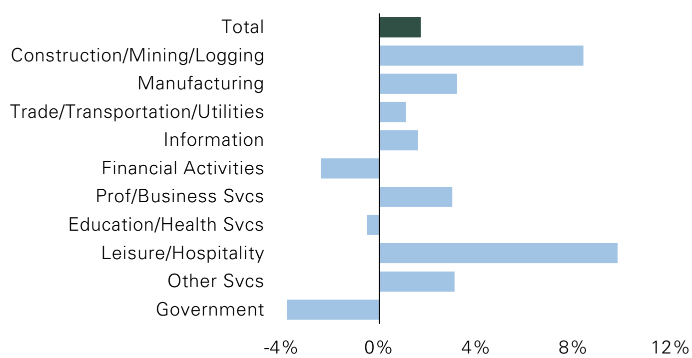
**All Items, 12-Month % Change, Not Seasonally Adjusted**




Source: U.S. Bureau of Labor Statistics, December 2021

## Employment Growth By Industry

**STL, Nov. 2021, 12-Month % Change, Not Seasonally Adjusted**




Source: U.S. Bureau of Labor Statistics, December 2021

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Newmark has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Research Reports are available at nmrk.com/insights.